NCA
VOC FOR IOP/FN
BACKGROUNDER NO. 5-5510 FEBRUARY 9, 1978
FRED BROWN/NEW DELHI

PAKISTAN OIL DEAL

ANNCR:

PAKISTAN HAS ENTERED INTO A JOINT VENTURE WITH AN AMERICAN OIL COMPANY TO EXPLORE FOR OIL IN THE AREA AROUND ISLAMABAD. CORRESPONDENT FRED BROWN HAS THIS BACKGROUND REPORT FROM THE PAKISTANI CAPITAL:

VOICE:

UNDER TERMS OF THE AGREEMENT APPROVED (LAST WEEK) WITH PAKISTAN'S OIL AND GAS DEVELOPMENT CORPORATION, THE AMERICAN OIL COMPANY AMOCO, WILL EXPLORE FOR OIL IN A FIFTY-FOUR HUNDRED SQUARE KILOMETER AREA AROUND THE CAPITAL KNOWN AS THE NORTH POTOWAR REGION. THE AGREEMENT STIPULATES THAT AMOCO IS TO PUT UP EIGHTY PER CENT OF THE EXPLORATION COSTS AND FIFTY PER CENT OF THE COST OF DRILLING. IN RETURN, AMOCO WILL BE GUARANTEED THIRTY PER CENT OF THE OIL FOUND, WITH THE REMAINING SEVENTY PER CENT GOING TO PAKISTAN.

THIS THE FIRST TIME THAT A JOINT VENTURE AGREEMENT HAS BEEN WORKED OUT FOR OIL EXPLORATION. IN THE PAST, FOREIGN COMPANIES HAVE BEEN GRANTED CONCESSIONS WHICH REQUIRED THEM TO FOOT THE FULL COST AND AGREE TO A LESS ATTRACTIVE SHARING ARRANGEMENT FOR ANY OIL FOUND. THE MORE LIBERAL TERMS OF THE NEW AGREEMENT REFLECTS PAKISTAN'S DESIRE TO STEP UP THE PACE OF OIL EXPLORATION. EFFORTS REPORTEDLY ARE UNDERWAY TO REACH SIMILAR AGREEMENTS WITH OTHER AMERICAN OIL COMPANIES.

WHILE NO IMPORTANT OIL STRIKES HAVE BEEN MADE IN PAKISTAN SINCE NINETEEN SIXTY NINE, AMOCO OFFICIALS ARE REPORTED TO BE OPTIMISTIC. AS ONE INDEPENDENT OBSERVER PUT IT: "THE GEOLOGY IS RIGHT." ALTHOUGH LITTLE OIL HAS BEEN FOUND RECENTLY, GREAT

QUALITIES OF NATURAL GAS HAVE BEEN FOUND. MOST OF THIS GAS REMAINS UNTAPPED FOR WANT OF INVESTIMANT CAPITAL AND FOR WANT OF A MARKET.

MUCH OF THE NATURAL GAS IS LOCATED IN DISTANT AREAS, WHICH MEANS CONSTRUCTION OF EXPENSIVE PIPELINES. BUT LACK OF A MARKET IS THE MAIN FACTOR DISCOURAGING DEVELOPMENT OF THIS RESOURCE. VIRTUALLY ALL OF PAKISTAN'S PRESENT INDUSTRIAL ENERGY REQUIREMENTS ARE MET WITH NATURAL GAS. NATURAL GAS ALSO IS USED IN MAKING FERTILIZER. TWO LARGE FERTILIZER PLANTS, BUILT BY AMERICAN FIRMS, ALREADY ARE IN OPERATION. HOWEVER, FOREIGN INVESTORS HAVE COMPLAINED ABOUT THE NARROW MARGIN OF PROFIT ALLOWED THEM UNDER PRESENT REGULATIONS.

THE IDEAL SOLUTION, ACCORDING TO OBSERVERS, WOULD BE TO EXPOR PAKISTAN'S NATURAL GAS TO INDIA, WHICH COULD USE IT TO BUILT FERTILIZER PLANTS IN THE NEARBY PUNJAB, INDIA'S BREADBASKET. EXPORT OF NATURAL GAS TO INDIA WOULD ALSO HELP GREATLY TO REVERSE THE TRADE IMBALANCE BETWEEN THE TWO COUNTRIES, WHICH IS CURRENTLY RUNING IN INDIA'S FAVOR.

HOWEVER, TRADE ON SUCH SCALE WITH HAVE TO WAIT FOR FURTHER IMPROVEMENT IN RELATIONS BETWEEN THE TWO COUNTRIES, SINCE, AS ONE OBSERVER PUT IT, INDIANS ARE NOT YET READY TO ALLOW THEMSELVES TO BECOME DEPENDENT ON PAKISTANI GAS SUPPLIES. IN THIS REGARD, THE JUST CONCLUDED VISIT OF INDIA'S EXTERNAL AFFAIRS MINISTER A.B. VAJPAYEE TO PAKISTAN SHOULD HELP TO CLEAR AWAY THE MUTUAL DISTRUST THAT HAS IMPEDED COOPERATION BETWEEN THE TWO COUNTRIES.

JS/PY